

Message Text

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ACTION EA-09

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E.O. 11652: N/A

TAGS: ECON, JA

SUBJ: CABINET APPROVES RELEASE OF EPA ECONOMIC WHITE PAPER

1. SUMMARY. ECONOMIC PLANNING AGENCY HAS RELEASED ECONOMIC WHITE PAPER WITH CABINET APPROVAL. PAPER ASSERTS THAT ECONOMIC DECLINE ENDED IN FIRST QUARTER OF 1975 AND THAT MILD RECOVERY IS UNDERWAY. INFLATION STILL SEEN AS SIGNIFICANT PROBLEM IN SPITE OF WEAK CONSUMER DEMAND. MILD OPTIMISM OF PAPER IS SO QUALIFIED AS TO MAKE IT ALMOST INVISIBLE. END SUMMARY.

2. EPA WHITE PAPER APPROVED BY CABINET ON AUGUST 8 IS DIVIDED INTO TWO SECTIONS. FIRST IS ON HOW GOJ OVERCAME CURRENT "INFLATIONARY-RECESSION": SECOND IS ON PROBLEMS ASSOCIATED WITH ACHIEVING SLOWER GROWTH THAN IN THE PAST.

3. EPA ANALYSIS IS MUCH STRONGER ON PRESENT SITUATION AND PROBLEMS THAN ON FUTURE PROJECTIONS--A COMMON FEATURE OF PREVIOUS WHITE PAPERS. JAPANESE CALCULATE THAT RECESSION REACHED LOW POINT IN JAN-FEB OF THIS YEAR. MAJOR CAUSE WAS INFLATION WHICH CREATED FEARS OF HIGHER PRICES FOR ESSENTIALS AND CAUSED CONSUMERS TO CURTAIL REAL PURCHASES. DOWNWARD BUSINESS INVENTORY

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ADJUSTMENTS RESULTED IN REDUCED PRODUCTION AND, LATER

ON, CONCERN ABOUT POSSIBLE UNEMPLOYMENT TENDED TO
REDUCE CONSUMER DEMAND EVEN MORE.

4. THREE ROUNDS OF GOJ MEASURES TO RESTORE GROWTH
HAVE HAD LIMITED EFFECT IN REBUILDING CONFIDENCE.
CONSUMER DEMAND, ALTHOUGH NOT EXPANDING APPRECIABLY,
HAS AT LEAST NOT DECLINED. PRODUCERS INVENTORIES OF
FINISHED GOODS, WHICH DECLINED IN FIRST FOUR MONTHS OF
1975, INCREASED IN MAY AND JUNE. ECONOMIC POLICY NOW
CALLS FOR CAUTIOUS DEMAND MANAGEMENT TO PREVENT A
RETURN OF INFIATION AND MODERATE MEASURES TO INCREASE
PRODUCTION AND CONSUMER DEMAND.

5. SECOND PART OF PAPER LISTS FACTORS THAT CONTRIBUTED
TO PAST HIGH GROWTH RATE BUT WHICH NOW NO LONGER PREVAIL:
AND EMPHASIZES DIFFICULTIES BUT ALSO NEED OF
ADJUSTING TO THOSE CHANGED CONDITIONS WHICH
WILL RESULT IN SLOWER BUT MORE STABLE FUTURE RATE OF
GROWTH. PROBLEMS ARE FIVE IN NUMBER.

(1) JAPANESE BUSINESS CYCLE IS SYNCHRONIZED WITH THAT
OF OTHER INDUSTRIALIZED COUNTRIES:

(2) RAW MATERIALS AVAILABILITY POSES A NEW CONSTRAINT:

(3) ENVIRONMENTAL DEMANDS INCREASE COST OF INVESTMENT:

(4) NEW TECHNOLOGIES WILL NO LONGER BE "EFFICINCY"
ORIENTED: AND

(5) WORLD FOOD SUPPLY SITUATION WILL REMAIN TIGHT IN-
CREASING NEED FOR AND COST OF DOMESTIC FOOD PRODUCTION
IN JAPAN. CONCLUSION, ALTHOUGH NOT STATED IN PAPER,
IS APPARENTLY THAT THESE DIFFICULTIES CAN BE OVERCOME
AND THAT JAPANESE ECONOMY CAN GROW AT AN AVERAGE OF
6-7 PERCENT OVER NEXT TEN YEAR PERIOD. THIS FIGURE IS
ADVANCED IN HIGHLY TENTATIVE FASHION, AND IT RESTS
ON A NUMBER OF ASSUMPTIONS, INCLUDING THAT COST OF
CRUDE OIL DOES NOT RISE MORE THAN 10 PERCENT THIS FALL,
THAT GROWTH WILL ACCELERATE SHARPLY DURING 1976, AND
THAT CONSUMER PRICE INFLAAION CAN BE KEPT AT OR BELOW
10 PERCENT FOR THE FORESEEABLE FUTURE. NEW GROWTH TARGETS
WILL NOT BE OFFICIALLY ESTABLISHED UNTIL 1976.

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6. COMMENT--RELEASE OF PAPER WAS ACCOMPANIED BY REPORTS
OF CONTINUING DISAGREEMENT BETWEEN DEP PRIMIN AND EPA DIR GEN
FUKUDA AND ITI MIN KOMOTO ON NEED TO PROVIDE BUSINESS WITH
DIRECT STIMULATION. FUKUDA STILL HOLDS TO
CONSERVATIVE ANTI-INFLATIONARY LINE, BUT HE HAS AGREED
TO REVIEW SITUATION AGAIN BY SEPT 10. FUKUDA MAY
THEREFORE AGREE TO EASING OF ECONOMIC POLICY, BUT SO
FAR TILT IS STIL TOWARD HOLDING REINS RATHER TIGHT

WHILE AWAITING DEVELOPMENTS. FUKUDA'S ESTIMATE MAY
BE THAT SLOW GROWTH IS LESS DAMAGING POLITICALLY THAN
WOULD BE A RETURN OF INFLATION.
SHOESMITH

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